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SUBJECT: KOSOVO 2009 INVESTMENT CLIMATE STATEMENT

REF: STATE 123907

#### INTRODUCTION

¶1. (U) On February 17, 2008 the Kosovo Assembly declared the independence of Kosovo. The United States immediately recognized and formally established diplomatic relations with Kosovo. Prior to the declaration, Kosovo was administered by the United Nations Interim Administrative Mission in Kosovo (UNMIK). At the time of this writing, Kosovo has been recognized by 54 countries, including 22 EU Member States. The Constitution of the Republic of Kosovo entered into force on June 15, 2008, along with over 40 foundation laws, as stipulated by the Comprehensive Settlement Plan formulated by UN Special Envoy Martti Ahtisaari. Although civil authority was transferred to the Government of Kosovo (GOK) from UNMIK with adoption of the Constitution, the EU-led International Civilian Office (ICO) serves as a supervisory authority as outlined in Ahtisaari's plan. Kosovo's current legal system is multifaceted and evolving. Applicable laws include Kosovo laws, UNMIK laws and regulations, and any applicable laws of the Former Socialist Republic of Yugoslavia that were in effect in Kosovo as of March 22, 1989. This situation has resulted in a complex and in some cases incomplete legal framework for businesses in Kosovo. The Government of Kosovo is still working on filling legislative gaps that remain, with support from the U.S. and other interested international donors.

¶2. (U) The political situation in Kosovo remained stable in 2008, but substantial bureaucratic deficiencies, as well as a lack of professional and technical capacity at the local and central government level, remain. Judicial institutions and law enforcement agencies currently lack the capacity to fully implement and enforce the rule of law. Court case backlogs are increasing. Corruption is widespread and anti-corruption efforts suffer from a lack of cohesive, forceful action and follow-through with punitive measures. The Anti-Corruption Agency began operations in 2006 but lacks capacity, political support and funding.

¶3. (U) Public administration is inefficient and subject to political interference. The civil service and public finance management functions lack full transparency and accountability, despite the legal framework in place. This has also hindered accurate and reliable data collection. With few exceptions, most data collection in Kosovo has been inconsistent and not subject to rigorous methodology, resulting in a partial view of how Kosovo's economy is performing. Due to this statistical uncertainty, anecdotal reports estimate that Kosovo's parallel economy could be anywhere from 30-40 percent of GDP.

¶4. (U) Kosovo continues to participate in the Stabilization and Association Process (SAP), the EU's policy framework toward the Western Balkans, by following the guidelines of

the European Partnership. The SAP steers Kosovo's reform process according to EU best practices and European legislation. The Partnership document outlines the main priorities that Kosovo needs to fulfill, also taking into account the requirements of the Standards for Kosovo, which are a series of laws, policies and institutions that the GoK must create in the areas of rule of law, property rights, and the economy, among others, to help develop a viable, sustainable government.

¶5. (U) The European Partnership Action Plan (EPAP) is an important component of Kosovo's European integration process, and was adopted by the GOK in August 2006. The EPAP incorporates the priorities of the SAP toward the goal of European integration, allowing for a joint approach to both processes. Through the EPAP, the GOK also adopted the Plan for European Integration 2008-2010, which aims to improve inter-governmental coordination and communication between Kosovo and the European Union (EU).

¶6. (U) In July 2008, the European Commission convened a donor conference in support of Kosovo's socio-economic development, attended by representatives from 37 countries and 17 international organizations. Over 1.2 billion euro (approximately 1.7 billion U.S. dollars) was pledged for 2008 and 2009 to cover Kosovo's financing needs for socio-economic development, as identified in the GOK's Medium Term Expenditure Framework (2008-2011).

¶7. (U) Institutional capacity building has continued with some success, most notably within the Ministry of Finance and Economy. Progress in key structural reform areas, such as public enterprise restructuring and law enforcement, has been limited. The privatization of socially-owned enterprises (SOE) continued in 2008, after responsibility was transferred from the Kosovo Trust Agency, a former UNMIK entity, to the Privatization Agency of Kosovo (PAK). The new Kosovo-run PAK has launched three waves of privatization since beginning operations in August, tendering 313 SOEs from which 551 new companies were formed. The SOE privatization process has generated 391 million euro (approximately 550 million U.S. dollars) since 2004, and has garnered the interest of 9,882 local and foreign investors, according to PAK. Kosovo's three largest exporters are privatized companies: Ferronikeli (nickel), M & Sillosi LLC (flour) and LlamKos (steel). Ferronikeli was purchased for 30.5 million euro (around 42.8 million U.S. dollars) by a Kazakh-Swiss consortium, and is the largest foreign investment to date from privatization initiatives.

¶8. (U) From June 15, the GOK's Ministry of Finance and Economy became responsible for the administration of publicly-owned enterprises (POEs). Kosovo's major public companies and utilities - Pristina International Airport, Kosovo Energy Corporation (KEK), Post and Telecommunications of Kosovo (PTK), Kosovo Railways, district heating enterprises, and landfill, water and waste management companies - were all incorporated in 2005-2006. Incorporation has clarified these companies' legal status and established proper management and oversight procedures. The GOK has announced its intention to concession Pristina International Airport before the end of 2009.

¶9. (U) An Energy Regulatory Office was established in June 2004, allowing Kosovo to become a signatory (through UNMIK) to the Energy Community Treaty, which established a regional energy market in South East Europe in October 2005. Electricity in Kosovo is produced by two lignite-fired thermal power plants, known as Kosovo A and Kosovo B, using 1950s and 1970s technology, and a small hydropower plant. Although the power plants have a production capacity of 1478 megawatts (MW), the two facilities are only producing 800 MW at this time. The hydropower plant produces an additional 32 MW. Poor management, severe capital under-investment, and lack of preventive maintenance has led to chronic power shortages and outages in Kosovo. Most transmission lines are operational following post-conflict repairs, but substations remain in poor technical condition. These conditions have

resulted in KEK being unable to meet customer needs in 2008, requiring Kosovo to import electricity in order to make up some of this deficit.

¶10. (U) In 2008, the GOK approved the unbundling of Kosovo's electricity distribution network to form a new company for privatization sometime in 2009. Private sector participation in the network distribution and supply side of KEK is anticipated to improve and expand the distribution network, increase billing and collections, reduce electricity losses, and improve the security of supply and overall service quality.

¶11. (U) In cooperation with the World Bank, the Ministry of Energy and Mining solicited expressions of interest from private investors in 2006 for a new energy development project intended to address Kosovo's unmet and growing demands for power. The project entails construction of a new power plant ("New Kosovo", formerly titled "Kosovo C") with an anticipated production capacity of 2100 MW, the development of a coal mine for the New Kosovo plant and the two existing power plants, and refurbishment of certain production units of Kosovo A. The New Kosovo Project Steering Committee announced a short-list of four consortia, including three which include American firms that will have the opportunity to bid on the tender once issued. Requests for proposals are expected to be solicited in 2009.

¶12. (U) The GOK, with financial assistance from the World Bank, has also engaged consultants to conduct preliminary environmental and social assessments for the construction of the new hydro power plant at Zhur, in western Kosovo. The Zhur hydro power plant is envisaged to produce a maximum of 300 MW of electricity. The study is expected to be completed in early 2009.

¶13. (U) The mining sector has traditionally been an important contributor to Kosovo's economy but declined in the 1990's from lack of investment in equipment, facilities and development of new mines. Kosovo has a varied geology containing a range of exploitable metal and mineral deposits.

A geophysical survey completed by the Joint Airborne-Geosciences Capability in 2006-2007 revealed higher than expected deposits of gold, chrome and nickel, as well as aluminum, copper, iron metals and lead-zinc deposits. The Independent Commission for Mines and Minerals (ICMM) regulates Kosovo's minerals sector, issues exploration and mining licenses, and ensures legislative compliance with international mining, environment and safety standards. ICMM also provides key technical information to prospective bidders. This sector has significant foreign investment potential.

#### ¶A. OPENNESS TO FOREIGN INVESTMENT

¶14. (U) The GOK and the Ministry of Trade and Industry (MTI) actively promote foreign investment in Kosovo. In January 2001, UNMIK adopted Regulation 2001/3 on Foreign Investment in Kosovo, and the Kosovo Assembly passed the Foreign Investment Law in November 2005, promulgated by UNMIK in April 2006. Under this law, foreign firms operating in Kosovo are granted the same privileges as domestic businesses, with the exception that foreign investors may not hold more than 49 percent ownership in businesses producing or selling military products (Reg. No. 2001/3, Section 6). Currently, only international security firms are permitted to carry weapons, creating a market for foreign firms specializing in armed guard services. New business registration with MTI's official registry has steadily increased, indicating some local enterprise development. Since 1999, over 90,000 private businesses have been registered, although MTI states that over half of these businesses are technically inactive. All business license applications are processed by the Agency for Business Registration in Pristina and normally issued within three business days, making Kosovo one of the easiest places in the region to set-up a business.

¶15. (U) While the basic legislation of a market-oriented economy is in place, determining property ownership remains a challenge. These legal uncertainties, in addition to weak law implementation and poor contract enforcement, continue to hinder economic growth and investment. All commercial laws are available to the public in English on the Kosovo Assembly's Website at [www.assembly-kosova.org/?cid=2,191](http://www.assembly-kosova.org/?cid=2,191) and on the UNMIK website at [www.unmikonline.org/regulations/unmikgazette/index.htm](http://www.unmikonline.org/regulations/unmikgazette/index.htm).

#### ¶B. CONVERSION AND TRANSFER POLICIES

¶16. (U) Section 9 of UNMIK Regulation 1999/24 and Article 9 of the Foreign Investment Law guarantees unrestricted use of income from foreign investment, after taxes and other liabilities. This includes transfers to other foreign markets or foreign currency conversions. All currency conversions and transfers are processed in accordance EU banking procedures. Conversions are made at the market rate of exchange. Foreign investors are permitted to open bank accounts in any currency.

#### ¶C. EXPROPRIATIONS AND COMPENSATION

¶17. (U) Section 7 of UNMIK Regulation 1999/24 and Article 8 of the Foreign Investment Law protect foreign investments from expropriation, and guarantees due process and timely compensation payment for valid claims. In April 2005, UNMIK approved an eminent domain clause in order to prevent lawsuits deriving from property expropriations and sales occurring as part of the privatization process. This clause only applies to cases of SOE privatization.

#### ¶D. DISPUTE SETTLEMENT

¶18. (U) Section 17 of UNMIK Regulation 1999/24 and Chapter 4 of the Foreign Investment Law assign jurisdiction for business dispute resolution to Kosovo courts. However, foreign investors are free to agree upon arbitration or another, alternative dispute resolution mechanism. The results of arbitration are enforceable by local courts. The Foreign Investment Law stipulates investors select from the following standards for investment dispute arbitration:

- a. the International Center for Settlement of Investment Disputes (ICSID) Convention, if both the foreign investor's country of citizenship and Kosovo are parties to said convention at the time of the request for arbitration;
- b. the ICSID Additional Facility Rules, if the jurisdictional requirements for personal immunities per Article 25 of the ICSID Convention are not fulfilled at the time of the request for arbitration;
- c. the United Nations Commission on International Trade Law Rules. In this case, the appointing authority referred to therein will be the Secretary General of ICSID; or
- d. the International Chamber of Commerce Rules.

English is the official language in the event of a commercial legal dispute.

¶19. (U) Kosovo's commercial court has jurisdiction over disputes involving shipping, intellectual property rights and unfair trade practices. The court's effectiveness has been undermined by extremely long delays in the adjudication of commercial court cases and poor enforcement of existing laws. These impediments also adversely affect utility bill and overdue loan collections.

¶20. (U) Municipal courts handle bankruptcy procedures for all companies except SOEs, according to Kosovo bankruptcy law. The Pristina Municipal court has a special bankruptcy

division.

¶21. (U) The Special Chamber of the Supreme Court on Kosovo Trust Agency Related Matters was established under Section 1 of UNMIK Regulation 2002/13. The Special Chamber is composed of three international and two local judges who handle disputes and claims related to privatization and economic restructuring. The Special Chamber has primary jurisdiction over appeals against the decisions of the KTA, as well as creditor, ownership and property claims brought against SOEs and POEs, and claims arising from the privatization and liquidation of SOEs. The procedures for claimants wishing to institute proceedings are detailed in UNMIK Regulation 2003/23. A new Special Chamber law is being drafted to handle related cases for the KTA successor agency, the Privatization Agency of Kosovo (PAK).

¶22. (U) For criminal cases, the Criminal Code of Kosovo and the Kosovo Code of Criminal Procedure apply. The criminal court structure includes the Supreme Court of Kosovo, District Courts, Municipal Courts and Courts of Minor Offenses, including a High Court of Minor Offenses. Per 100,000 inhabitants, the Kosovo judicial system has 19 judges and prosecutors, and three courts, which is close to European standards. Despite the high proportion of judges, prosecutors and courts, a significant backlog of cases remain pending, pointing to a significant need for improved efficiency and capacity of the justice system.

#### ¶E. PERFORMANCE REQUIREMENTS/INCENTIVES

¶23. (U) GoK does not specify performance requirements as a condition for establishing, maintaining or expanding an investment in Kosovo. A 16 percent across-the-board value added tax (VAT) applies as of January 2009. In order to encourage investment, businesses importing capital goods are granted a six-month VAT payment deferment upon presentation of a bank guarantee. Suppliers may export goods without being required to collect VAT from the foreign buyer. Suppliers may claim credit for taxes on inputs, either by offsetting those taxes against gross VAT liabilities or by claiming a refund.

¶24. (U) In September 2000, the EU formally recognized Kosovo as an autonomous customs territory and amended its General System of Preferences, eliminating quantitative restrictions for most industrial products from Kosovo. By June 2002, the EU granted preferential treatment to all imports from Kosovo, removing remaining tariff ceilings for industrial products, including steel and textiles, and improving access to EU markets for agricultural products. Kosovo customs is working to harmonize certificates of origin standards with EU customs. In December 2008, the United States designated Kosovo a beneficiary developing country under the Generalized System of Preferences (GSP) program.

#### ¶F. RIGHT TO PRIVATE OWNERSHIP AND ESTABLISHMENT

¶25. (U) UNMIK regulations and the Foreign Investment Law do not interfere with the establishment, acquisition or sale of interests in enterprises by private entities. Ownership rights can be extended to foreign investors. Foreign investment is not subject to approval by the Government of Kosovo, except when such approval is required for similar

domestic businesses. The following rights also apply:

- a. foreign investors may transfer property rights, including permits, to other legally qualified persons in the same manner and to the same extent as domestic investors;
- b. foreign investors have the right to purchase residential and non-residential property to the same extent as domestic businesses;
- c. foreign investors with less than a majority stake in an



investment shall be protected as domestic minority shareholders in accordance with applicable law;

d. foreign investments are subject to the same tax obligations as domestic businesses; and

e. foreign investors may establish subsidiary enterprises, branches and representative offices in the same manner and to the same extent as domestic businesses.

#### 1G. PROTECTION OF PROPERTY RIGHTS

126. (U) UNMIK Regulation 2002/22 promulgated the law adopted by the Kosovo Assembly to establish an immovable property rights register, as a method of protecting private land ownership. The Kosovo Cadastral Agency (KCA) has authority for the overall administration of the official register, with municipal cadastral offices recording immovable property rights in the official register under the authority of the KCA. Liens against movable property are protected under UNMIK Regulation 2001/5, detailing the specific procedures by which liens can be created, enforced and applied against third parties. This regulation applies to all transactions, regardless of form, intended to create a lien. UNMIK Regulation 2002/21 promulgated the law adopted by Kosovo Assembly on mortgages, establishing a uniform system for securing and registering and liens against immovable property, and to create a mortgage and lien registry.

127. (U) However, the resolution of residential, agricultural and commercial property rights remains a serious and contentious issue in Kosovo. Most property records were destroyed or removed to Serbia by the Serbian government during the last conflict, making determination of rightful ownership for the majority of properties complex at best. There have been cases of up to 20 ownership claims to a single property, presenting a variety of ownership documents as proof. The Kosovo Property Agency (KPA), formerly the Housing and Property Directorate (HPD), has been tasked with adjudicating roughly 40,000 property disputes from March 23, 1989 to October 13, 1999, and working toward resolution of agricultural and commercial property claims. Until the disputes are resolved, no new properties can be registered with the agency. In the meantime, property sales and transfers, some involving false documents, are on-going, further complicating the resolution process. In addition to the KPA, Kosovo's court system has its own large backlog of property cases.

128. (U) Section 10 of UNMIK Regulation 2001/2 ensures protection of intellectual property rights (IPR), authorizing enforcement of trademark, copyright and patent laws, and any related international conventions. The Industrial Property Rights Office was established in 2007 within the Ministry of Trade and Industry, tasked with intellectual property rights protection. Several pieces of legislation have been passed on IPR protection, including patent, trademark, industrial design and copyright laws. The 1981 Yugoslav Law on Protection of Inventions, Technical Improvements and Distinctive Signs, and the 1991 Law on Authors Rights are also considered applicable law in Kosovo's courts. Effective inter-agency coordination on implementing intellectual property rights protection laws remains a challenge but is improving, as the GOK becomes more aware of its responsibilities in this area. A number of counterfeit consumer goods (notably CDs, DVDs, clothing items and computer software) are available for sale and traded openly. Although Kosovo is not a counterfeit goods producer, the development of a strong intellectual property rights regime will encourage future investment and economic development in Kosovo.

#### 1H. TRANSPARENCY OF THE REGULATORY SYSTEM

129. (U) In order to promote fair and open competition for government tenders, as well as transparency in the

procurement and regulatory process, the GOK publishes the rules, regulations and procedures of the tendering process on the following websites: [www.assembly-kosova.org](http://www.assembly-kosova.org) and [www.pm-ksgov.net](http://www.pm-ksgov.net). As Kosovo continues to establish regulatory institutions, procedures for obtaining licenses and permits can vary widely, with a corresponding variance in process transparency.

¶30. (U) The Public Procurement Agency in the Kosovo Ministry of Public Services manages bulk procurement and services provisions for the GOK. All Public Procurement Agency tenders are advertised in English, Albanian and Serbian. The Public Procurement Regulatory Commission recently initiated procurement audits of the various Kosovo ministries, municipal authorities and agencies receiving funds from the Kosovo consolidated budget.

#### ¶I. EFFICIENT CAPITAL MARKETS AND PORTFOLIO INVESTMENT

¶31. (U) The Central Bank of Kosovo (CBK) is an independent body responsible for fostering the development of competitive, sound and transparent banking and financial sectors. This includes supervising and regulating Kosovo's banking sector, insurance industry, pension funds and other micro-finance institutions, and performing a number of other normal central bank tasks, including cash management, transfers, clearing, management of funds deposited by the Ministry of Finance and Economy or other public institutions, collection of financial data and management of a credit register. The CBK is not authorized to grant loans to banks.

¶32. (U) Kosovo's banking system and non-financial enterprises are not prepared to finance large investment projects in the private sector. In the past three years, there has been minimal private investment in Kosovo outside of real estate construction and development. About 80% of bank loans are short-term credits with interest rates ranging from 12-14%. Most deposits are demand deposits.

¶33. (U) The insurance sector is small but has grown steadily in recent years. At the end of 2008, there were nine licensed insurance companies in Kosovo.

#### ¶J. POLITICAL VIOLENCE

¶34. (U) In 2008, there were some isolated incidents of inter-ethnic and politically-motivated violence and sporadic political protests, but none of these events adversely affected Kosovo's political stability. The UN-authorized, NATO-led peacekeeping Kosovo Force (KFOR) maintains internal security and defense against external threats. KFOR also assisted UNMIK's multinational civilian police corps (UN International Police or CIVPOL) in its role as uniformed and criminal police. CIVPOL transferred basic policing functions to the Kosovo Police Service (KPS), and continued to provide oversight and monitoring until UNMIK was replaced by the European Union's Rule-of-Law Mission in Kosovo (EULEX). EULEX commenced operations on December 9, 2008 and replaced UNMIK Police throughout Kosovo, providing advice and mentoring to Kosovo's rule-of-law institutions. The Kosovo Protection Corps (KPC), a civilian emergency preparedness service, is trained to respond to civil and medical emergencies but will be replaced by the Kosovo Security Force (KSF) in 2009.

#### ¶K. CORRUPTION

¶35. (U) Corruption in Kosovo remains widespread in government and private industry, adversely affecting commercial development. The Law on the Suppression of Corruption was passed in May 2005, and stipulated the creation of an Anti-Corruption Agency to address this problem. This agency is tasked with, among other duties, preparing an anti-corruption strategy for Assembly approval, conducting administrative investigations of alleged corruption cases,

and monitoring proper implementation of the Corruption Law. Citizens can report suspected corruption via a toll-free hotline or through the Anti-Corruption Agency's website. In March 2008, the Anti-Corruption Agency announced that it had received 61 reports of corruption in 2007, estimated to have cost the government 31 million euros (approximately 40 million U.S. dollars). The Agency estimated that corruption had cost the government six million euros (7.8 million U.S. dollars) by July 2008.

¶36. (U) In 2008, the government took additional legislative steps to combat corruption. Since March, government officials are now required to disclose all gifts received, as stipulated by the Law on Suppression of Corruption. This new law will be supplemented by legislation (currently in draft form) requiring government officials to file asset declarations upon entry and exit from government service. Since 2003, a Financial Intelligence Unit (FIU) staffed by Italian Guardia di Finanza officers conducted financial inspections of public bodies and enterprises, as well as other organizations funded by the Kosovo Consolidated Budget. The FIU also has the authority to conduct criminal investigations.

¶37. (U) Additionally, Section 15 of Regulation 2001/3 states that foreign investors shall observe business practices consistent with existing European standards, including:

- the Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds of Crime (Council of Europe, Strasbourg, 8 July 1990);

- the Convention on Combating Bribery of Foreign Government Officials in International Business Transactions (Organization for Economic Cooperation and Development, Paris, 21 November 1997); and

- the Criminal Law Convention on Corruption (Council of Europe, Strasbourg, 27 January 1999).

Violation of these conventions could disqualify a foreign investor from doing business in Kosovo.

¶38. (U) There are frequent reports of irregularities in public tendering procedures. The recent revision of the Public Procurement Law and a significant increase in public audits from the Office of the Auditor General are important steps forward. The Public Procurement Law clearly defines the division between executive and regulatory functions, in accordance with EU practices. Tax evasion is high and many local and foreign businesses are concerned about the professional ethics of government officials, who are reportedly accepting bribes or extorting firms in exchange for licenses, permits, movement of paperwork or even routine public services. Traditional lending and business practices tend to favor personal connections and nepotism over creditworthiness.

#### ¶L. BILATERAL INVESTMENT AGREEMENTS

¶39. (U) Albania was the first country to sign an FTA with Kosovo in 2003, followed by Macedonia in 2005. The Kosovo-Macedonia FTA stipulates that Kosovo imports have complete, duty-free access to the Macedonian market but in reality, Macedonia still imposes duties at the border, particularly on agricultural imports. In 2006 Kosovo signed FTAs with Croatia and Bosnia-Herzegovina, and became a signatory to the Central European Free Trade Area (CEFTA) and EU Common Aviation Area. CEFTA came into force in July 2007 and by September 2007 all signatories ratified the agreement, including Serbia. Kosovo is also a member of the Athens Process on Energy for the Southeastern Europe Energy Community Treaty. This is a significant step for Kosovo toward achieving increased regional cooperation and securing alternate sources of energy.



#### M. OPIC AND OTHER INVESTMENT INSURANCE PROGRAMS

40. (U) The U.S. Overseas Private Investment Corporation (OPIC) has been involved in Kosovo since 2000, providing financing, political risk insurance and other investment vehicles to American investors. With OPIC assistance, American investors are currently involved with projects in the energy and real estate development sectors.

#### N. LABOR

41. (U) UNMIK approved Regulation 2001/27, the Essential Labor Law, remains in force while Kosovo drafts a new comprehensive labor law. The law requires employers to observe all applicable employee protections, including a 40-hour full-time work week, payment of overtime, adhering to occupational health and safety standards, respecting annual leave benefits and ensuring 90 days of maternity leave. The labor law calls for a minimum wage but does not set an amount. The Ministry of Labor and Social Welfare has created a compliance office that has the authority to visit places of employment to assess employer adherence to labor law requirements. Labor disputes are adjudicated in local courts.

#### O. FOREIGN TRADE ZONES/FREE PORTS

42. (U) The Kosovo Customs and Excise Code is business-friendly, compliant with EU and World Customs Organization standards, and addresses topics such as bonded warehouses, inward and outward processing, transit of goods, and free trade zones, with the aim of facilitating trade and stimulating export growth. In addition to imported goods, some Kosovo-produced goods from designated industries can also be stored in bonded warehouses, when applicable legislation dictates these goods meet export criteria. Foreign firms are permitted to import production inputs without paying taxes or customs duties for the manufacture of export goods.

43. (U) The Customs Code permits the establishment of free zones for manufacturing and export purposes, but none have been established yet.

#### P. FOREIGN DIRECT INVESTMENT STATISTICS

44. (U) Kosovo does not currently have a formalized system for collecting foreign direct investment data. However, the Investment Promotion Agency of Kosovo estimates over 1600 foreign companies are currently operating in Kosovo, compared to just 360 in 2004. Top sector investments for foreign businesses include trading (63%), service industries (18%), manufacturing industries (11.5%) and construction (7.5%).  
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